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TAGS: [ECON](#) [EPET](#) [PREL](#) [PGOV](#) [IZ](#)  
SUBJECT: SCENESETTER FOR U/S JEFFERY'S VISIT TO IRAQ

Classified By: Economic Minister Charles P. Ries for reasons 1.4 (b) and (d)

¶1. (C) Welcome to Iraq. The time is ripe for senior level economic engagement with Iraqis, as security improves in areas like Anbar and Baghdad. It is vital that security gains be cemented in place with jobs and investment. This will only happen if Government of Iraq (GOI) decision makers make the political decisions required to: cut the Gordian knot strangling the package of hydrocarbon laws; improve the way they formulate and spend their capital budgets to benefit all Iraqis; attract investment by implementing investment legislation passed over a year ago; and create an effective mechanism to involve the international community in sweeping economic and governance reform by standing up a fully-staffed secretariat to support implementation of the International

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Compact with Iraq (ICI).

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Hydrocarbon Legislation  
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¶2. (C) Your visit to Iraq will be an excellent opportunity to press key decision-makers for action now on the stalled hydrocarbon framework legislation. Expect most of your interlocutors to blame others for the delay, so tackling these issues requires a multi-faceted approach. PM Maliki has repeatedly assured us that he has the votes needed to secure passage of the hydrocarbon package in the Council of Representatives (CoR), and that the leaders' agreement on which version (the February version) to send to the CoR for debate. However, he asserts the GOI should build a stronger consensus on the hydrocarbon package before proceeding. Such a stance is a recipe for procrastination. Key decision-makers need to hear that it is time to stop quibbling about details, since every day that passes delays much-needed investment opportunities that would raise revenue in absolute terms for all of Iraq.

¶3. (C) The Sunni Tawafuq party is also resisting decisions on the draft legislation, arguing that Iraq's constitutional review will need to be completed before the oil law goes to its first reading, because the draft law poses numerous constitutional issues. In particular, Tawafuq says that the law would not give a role to the CoR in reviewing contracts, would give no real power to the Federal Oil and Gas Council, and would give too much power to the Kurdish Region and provinces. There also appears to be widespread misconception that the hydrocarbon framework law, by allowing production sharing agreements (PSAs), is "giving away" Iraq's oil resources to international oil companies, and that Iraq would be better off self-financing or borrowing to rebuild its energy infrastructure.

¶4. (C) The Sunnis need to hear that the constitutional issues can be worked out by minor compromises in the law itself, as can any issues about the annexes (which are supposed to

clarify what entities will exercise control over oil resources and which deposits count as already discovered). Recently Tawafuq proposed the following deal: if the USG applies strong pressure on the Kurds, and urges the Kurdistan Regional Government (KRG) that it not enter into any more unilateral production sharing contracts, then Tawafuq will support passage of a hydrocarbon framework law but only after Iraq completes its constitutional review. That's not a deal at all. The Sunnis should be told that the core questions have already largely been addressed in the draft legislation; any contingent proposals simply delay national reconciliation.

15. (C) As for the KRG, passage in August of the KRG hydrocarbon law has not helped resolve the situation, nor have the raft of non-transparent, unilateral deals. The KRG got a very favorable arrangement in the February 2007 hydrocarbon law draft, and KRG PM Barzani needs to be firmly told to stop stalling and to finalize the deal to which he agreed in February, both to maximize potential economic returns to Iraq and to reinforce national unity. Finally, the national government and Oil Minister Shahrastani, in particular, need to stop sniping at the KRG and Barzani, and to stop trying to walk back the February compromise (by putting into question the ability of regions to conclude PSAs). Shahrastani needs credibility in international oil markets to attract companies to tackle the exploration, development and refining tasks in the rest of the country. The sooner the grand bargain is booked, the better for the Ministry of Oil and the establishment of an Iraqi National Oil Company (INOC) as well.

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GOI 2008 Budget  
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16. (C) You may wish to take the opportunity of your visit to  
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engage Finance Minister Bayan Jabr on issues related to the 2008 budget. Septel will describe the Ministry of Finance's (MoF) 2008 budget proposal in more detail. In general, however, it is based on a conservative estimate for oil export revenues. It limits security sector (Ministries of Defense and Interior) spending to 8.2 billion USD, an 11 percent increase in dollar terms but inadequate to the security challenges the nation faces. On the capital budget, the MoF's proposal accords a 20 percent increase to the provinces, but slashes allocations for slow spending ministries (like the Ministry of Oil) and the KRG. (The KRG cuts will likely be restored in the CoR.) The 2008 budget season is slightly behind schedule. The Council of Ministers needs to approve a draft budget to send to the CoR soon to ensure the CoR has sufficient time for debate. For the 2007 cycle, the CoR only approved the budget in early February, truncating a significant portion during which ministries and provinces could otherwise have spent executing their allocations.

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International Compact with Iraq  
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17. (C) During your meeting with DPM Barham Salih, you should ask when he will announce a permanent Iraqi head of the ICI Secretariat, staff it with Iraqis, and about the performance

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of ICI sectoral working groups (SWGs). Dr. Barham has been unwilling to release his grip on the Compact process, but with his staff already taxed to the limit and little implementation since the ICI May 2007 signing, he might be better-served ceding overall control to PM Maliki's office, whose staff has the authority to foster ICI ministerial cooperation in the SWGs, in particular. Without sustained engagement and another less preoccupied Iraqi champion, the ICI implementation will remain sluggish. At a minimum, with

several ICI benchmarks contingent on passage of legislation in the CoR, you may wish to highlight the Compact process to interlocutors in the CoR.

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Joint Economic Commission  
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¶18. (C) You should raise with Iraqi policy makers the idea of holding a Joint Economic Commission. DPM Barham Salih told us October 29 that he wanted to organize such a meeting before the end of the year, but it is unlikely he has yet done any missionary work with his cabinet colleagues. Potential deliverables could include: a memorandum of understanding on U.S. support for Iraq's development of a national energy strategy; a memorandum of understanding on U.S. support for Iraq's development of a privatization strategy; a memorandum of understanding on U.S. support for technical assistance for COSIT modernization; agreement on expanded Iraqi exploitation of U.S. Generalized System of Preferences (GSP) benefits; a first meeting of the U.S.-Iraq Council on Trade and Investment as agreed to in the TIFA agreement signed at the last JCRED in 2005. To get all this done will require a preparatory working group.

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Beyond the Green Zone  
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¶19. (C) During your visit we will take you out of the Green Zone to see the revival of key Baghdad neighborhoods and markets with the surge. We also look forward to your travel to Kirkuk, Erbil and Basra. This will give you a real sense of the beyond-Baghdad economic and political situation.

¶10. (C) In that connection, of course, your visit unfortunately coincides with a period of heightened tension with Turkey over the PKK issue. This will be particularly acute in the North. We will brief you on the latest state of play on this unfolding issue upon your arrival.  
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